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FORM NO. 241 1 FEB 56 REPLACES FORM 36-8 WHICH MAY BE USED. (47)

OLL 86-0259
27 January 1986

MEMORANDUM FOR: Deputy Director for Administration

VIA: Chief, Liaison Division

FROM: [redacted] STAT
Liaison Division, OLL

100-13

SUBJECT: Status of Retirement

1. Conferees and staffers are tired of retirement legislation and the mood of compromise prevails. Moreover, all participants believe that the new plan for post-1983 Federal employees must be approved quickly lest budget cuts mandated by the Gramm-Rudman-Hollings law force the lawmakers to sharply reduce plan cost to the government.

2. Staffers predict that there will be a Congressionally-approved bill by the first week in April. (The stopgap law expires 1 May and new employees will pay over 14 percent of salary for Social Security and Civil Service unless the date is extended or a plan enacted.) House and Senate Staffers have been meeting during the past three weeks and negotiations are intensifying. Their strategy is to first tackle general design features that would apply to all employees and to give a redrafted proposal to the Conferees within three weeks. After the Conferees agree to the general plan, staffers will negotiate the details for special category groups, including the CIA. Staffers and Conferees plan to include the Administration throughout the negotiation process in order to insure that the White House is on board at the end.

3. While staffers are making progress, there are sharp differences over the balance between the basic plan and the thrift plan. Ford's people want a more generous defined benefit that resembles the Civil Service formula and Stevens staffers want to reduce the cost of the plan by shifting the weight of the benefit over to the thrift plan. House staffers argue that the thrift plan will not be as generous as Stevens intends when tax reforms are enacted. The House-passed tax reform legislation negates the tax deferment benefit in all new 401K plans. The House position is that this change will prevail in a tax reform law and

that the thrift plan will be treated like a 401K-type plan. Senate staffers state that the thrift plan will not be interpreted as a 401K-type plan, either by definition or by special exemption. Send in the lawyers.

4. With respect to CIA, Jamie Cowan, Chief Counsel to Stevens on Government Affairs Committee, Civil Service Subcommittee, asked, "What were the results of your dog and pony visits," referring to the DDCI and D/OP meetings with members. Clearly, Jamie remains firm in his "CIA is not unique" stand. Tom Deyulia, Staff Director, House Civil Service Committee, stated that Ford found the message "very persuasive," and thinks that, "the Agency will want what we eventually come up with." Tom gave no details. Additional briefings on Agency retirement needs should take place as soon as possible because most key decisions will be made before Conferees formally meet. No conference dates have been set.

5. House Republican staffers are lobbying for a few features that differ from both the House and Senate versions. The most interesting proposals are a gradual increase in retirement eligibility age, and a "step-rate" formula which varies the percentage replaced by income. A descriptive sheet is attached. No additional details of this alternative plan now are available and the Senate and House majority staffers do not appear to be taking the proposal seriously.

6. With respect to existing Federal retirement systems, the President's Budget will very likely include all of the changes that the Administration proposed last year. These include increasing the amount of employee contribution from seven to at least nine percent, raising the high three to a high five years, and a permanent reduction in COLA (CPI - 2). This budget proposal will be available 4 February. Both the Senate and House Civil Service Committees intend to try and block the changes.

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TABLE 2. Explanation of Alternative Provisions

A. H.R. 3660 grants full benefits to workers with 30 years of service at age 55. This alternative increases the age of eligibility for retirement after 30 years of service to coincide with similiar increases in the age for full benefits under Social Security (which rises 2 months per year in the years 2000 through 2005, and again in 2017 through 2022). Thus, the age for eligibility after 30 years service would become 57 in the year 2022). Thus, the age for eligibility after 30 years service would become 57 in the year 2022.

B. H.R. 3660 permits retirement at age 60 with 20 years of service. This alternative eliminates that provision.

C. H.R. 3660 applies full cost-of-living adjustments (COLA) to all benefits. This alternative does not apply COLA to benefits received by nondisabled retirees until they reach age 62.

D. This alternative does not apply COLA to benefits in the first year after initial award and prorates the first applicable COLA to reflect the period of time between award and the application of the COLA.

E. H.R. 3660 establishes a thrift plan that matches by $.50 on the dollar the first 6% of pay that employees save in the plan. This alternative automatically credits to each employee 2% of pay in an investment plan. In addition, employees would be permitted to participate in a tax-deferred savings plan without any employer match.

F. The basic formula in the defined benefit component of H.R. 3660 grants 1% of the salary base for each year of service. This alternative could use a formula that maintains the same cost as the basic formula in H.R. 3660, but which varies the percentage replaced by income. The exact structure of this "step-rate" formula has not been specified.

Table 1. Cost Effect of Alternatives a/
(in percent of payroll)

Baseline Cost	25.3%
A. Raise 30 year eligibility in sequence with Social Security	-0.7%
B. Eliminate eligibility at age 60 with 20 years of service	-0.2%
C. No COLA before age 62	-1.7%
D. No COLA in first year after award, prorate first COLA applied	-0.2%
E. Provide 2% of pay to thrift	+0.6%
F. Step-rate formula	neutral
Total Change	-2.2%
REVISED COST	23.1%

a/ If evaluated separately, cost effects of individual provisions would differ from the effects shown here.